



Presentation to the  
Indiana State Budget Committee

One Dip or Two: A Look at the  
Fiscal Challenges Across Fifty States

September 17, 2002

by

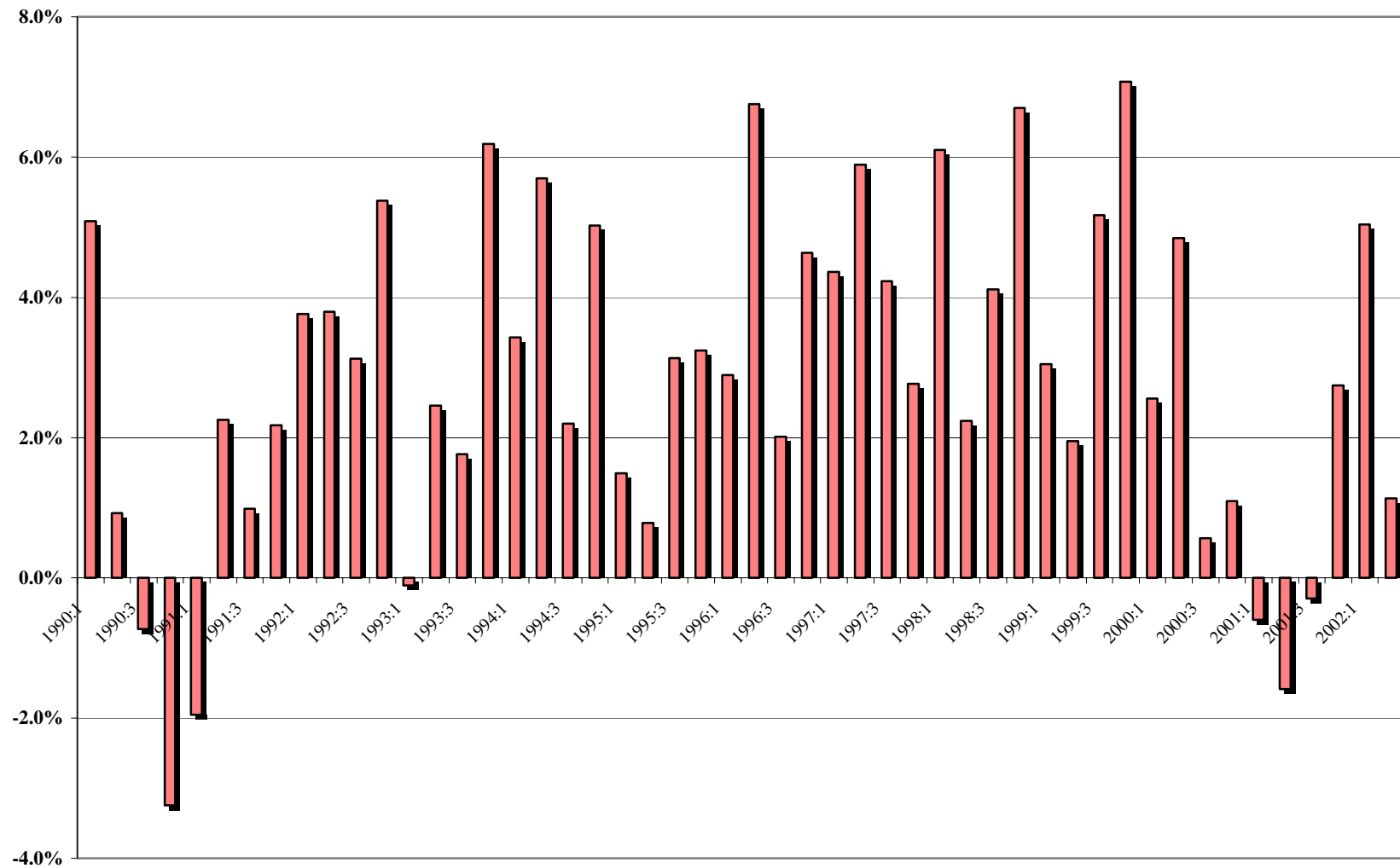
William J. Sheldrake, President  
Indiana Fiscal Policy Institute

# **Presentation Outline: The National Context to Indiana's Budget Process**

- The National Economy
- Revenue Picture in the States
- Budget Challenges Everywhere
- How Does Indiana Compare
- Questions about the Recovery

# Growth in Real GDP, 1990:1-2002:2

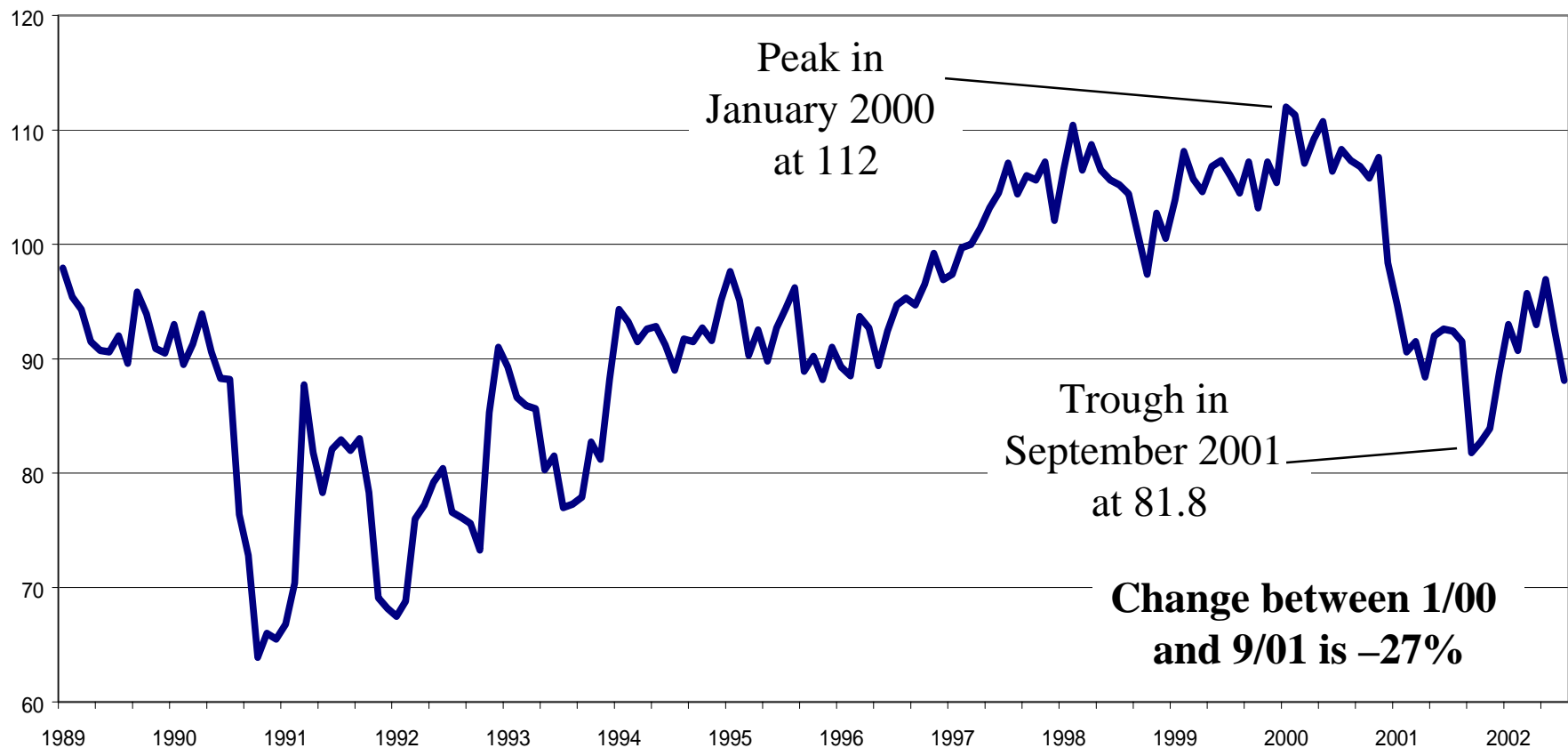
Percent Change at Annual Rate



Source: US Bureau of Economic Analysis

# Univ. of Michigan Index of Consumer Sentiment, 1989-2002

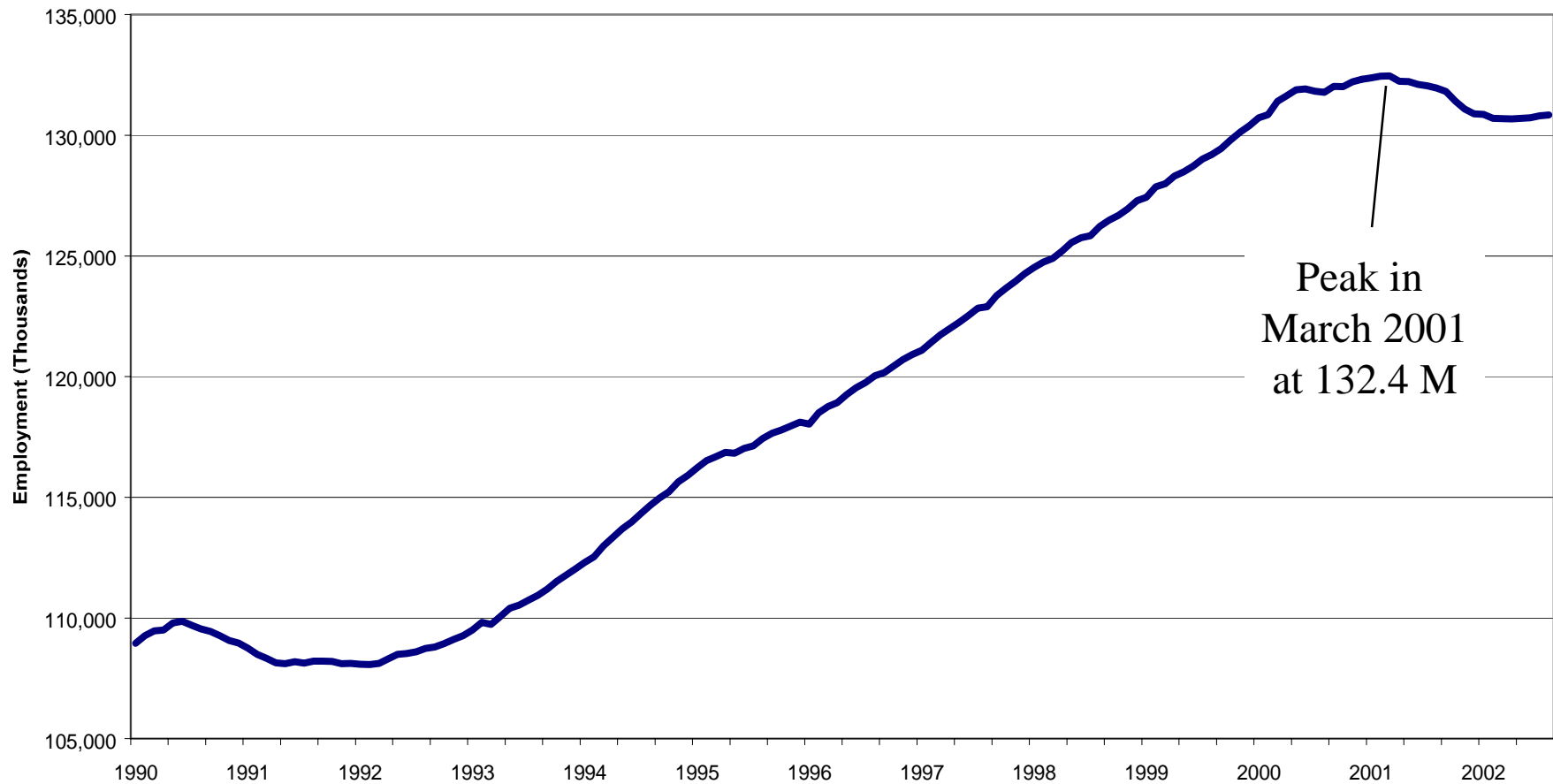
Not Seasonally Adjusted



Source: University of Michigan

# U.S. Non-Farm Employment, 1990-2002

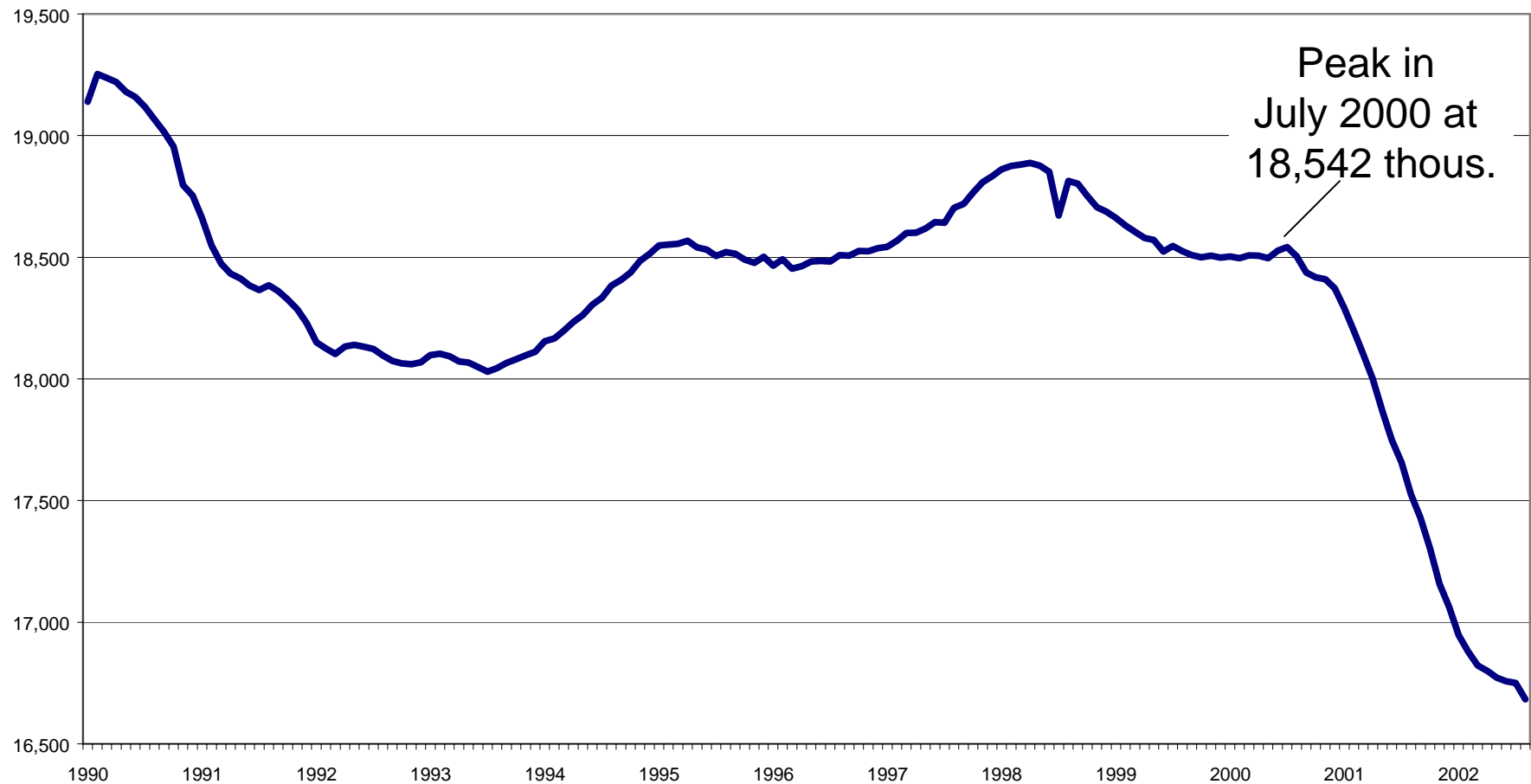
Seasonally Adjusted



Source: Bureau of Labor Statistics

# U.S. Manufacturing Employment, 1990-2002

## Seasonally Adjusted



Source: Bureau of Labor Statistics

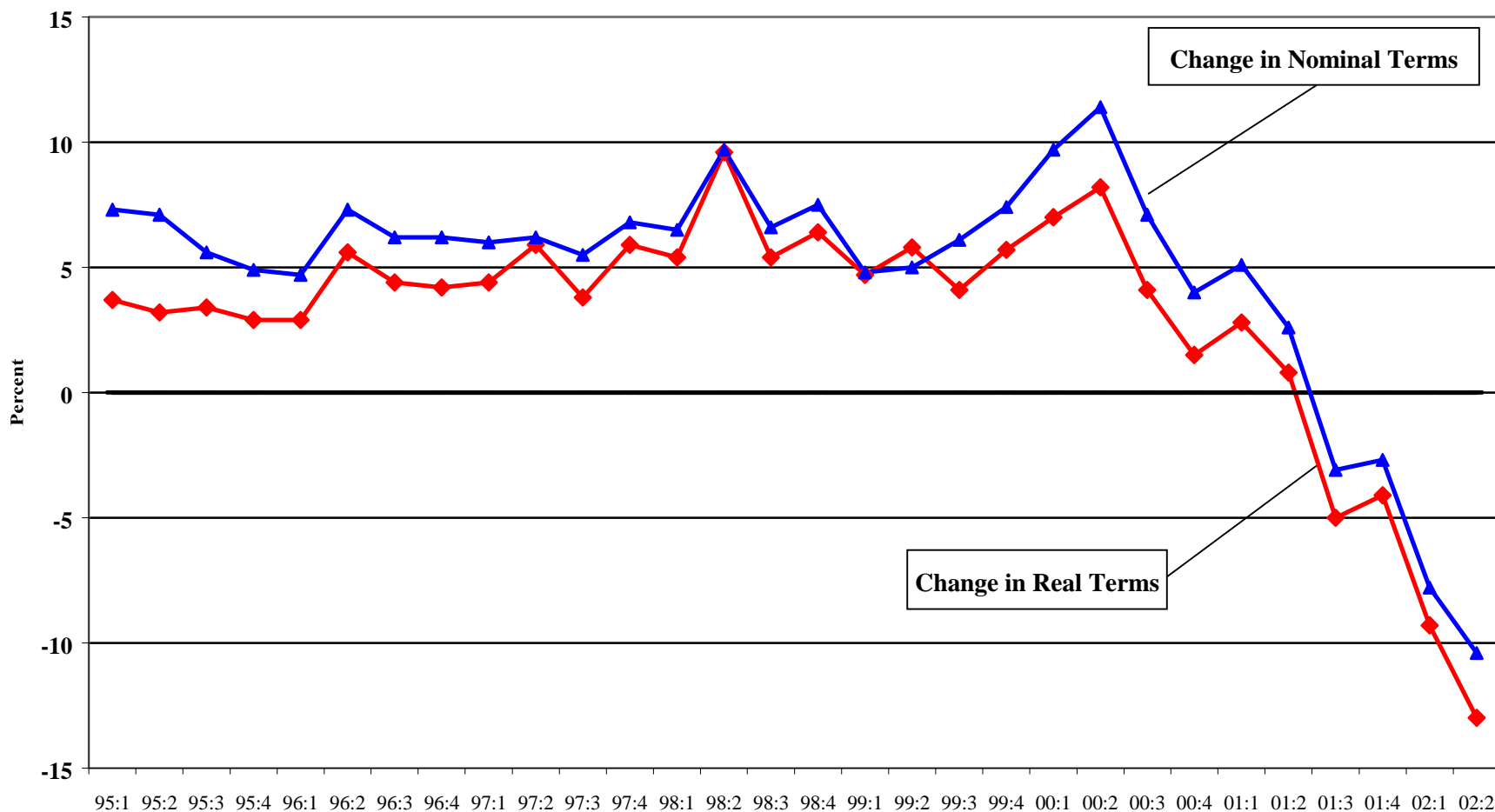
# How Does this Recession Compare?

- Total Employment decline so far milder than 1990; 1.6% in 1990, 1.4% in 2002
- Industrial production decline 7.4% vs 5.3% in 1990 and 10.9% in 1982
- Real mfg and trade sales declined 2.4% vs 5.2% in 1990; [9-11-01 adjustment]
- Real personal income decline .9% vs 2.6% in 1990

**State Revenues are Being  
Hammered!**

# Year over Year Change

## Quarterly State Tax Revenues, 1995:1-2002:2



Source: Fiscal Studies Program, Rockefeller Institute of Government

# Personal Savings Rate, 1996-2002

Seasonally Adjusted

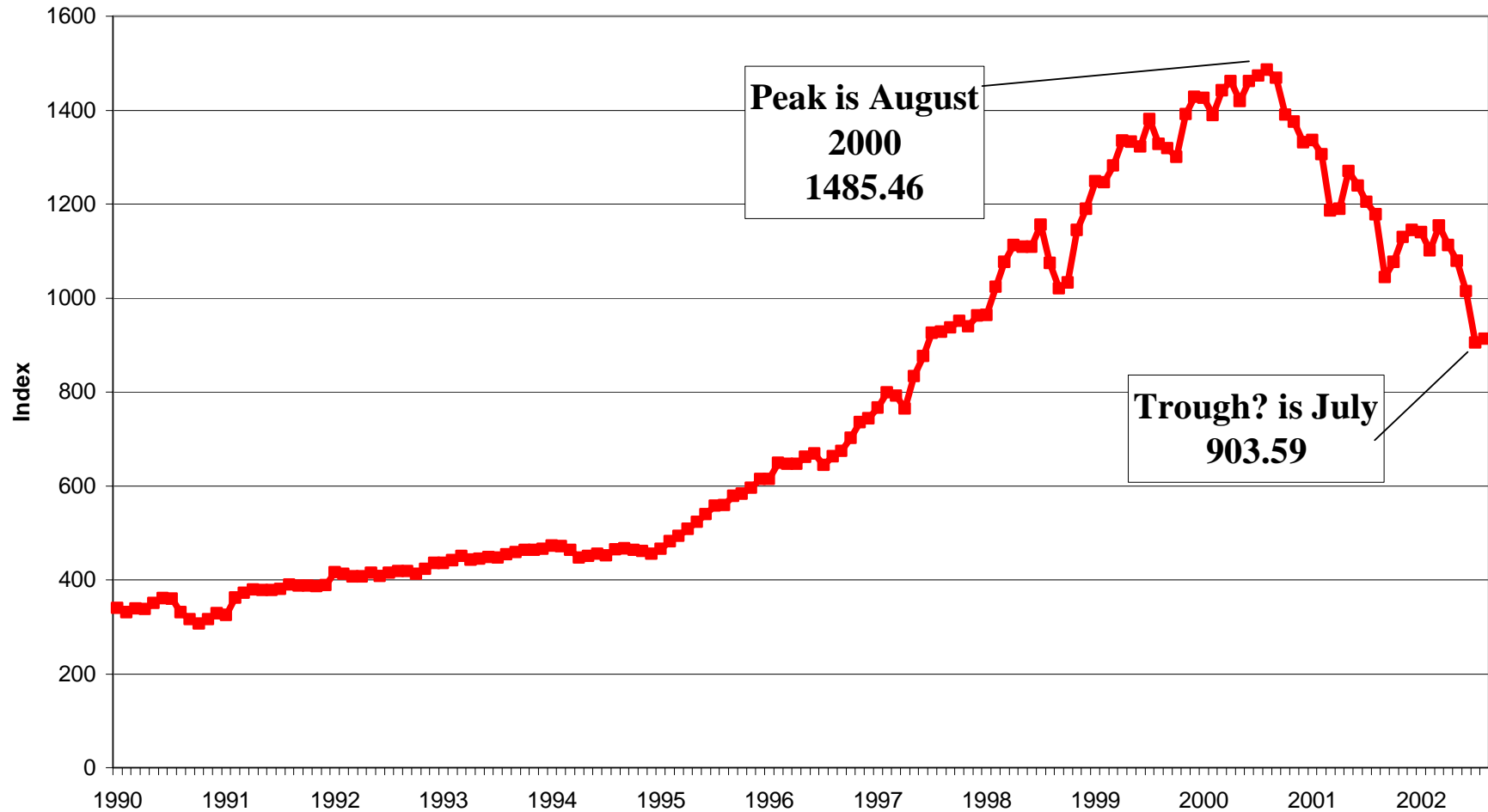


Consumers spent right through the beginning of the recession.

Source: Bureau of Economic Analysis

# Equity Values have Depressed Capital Gains!

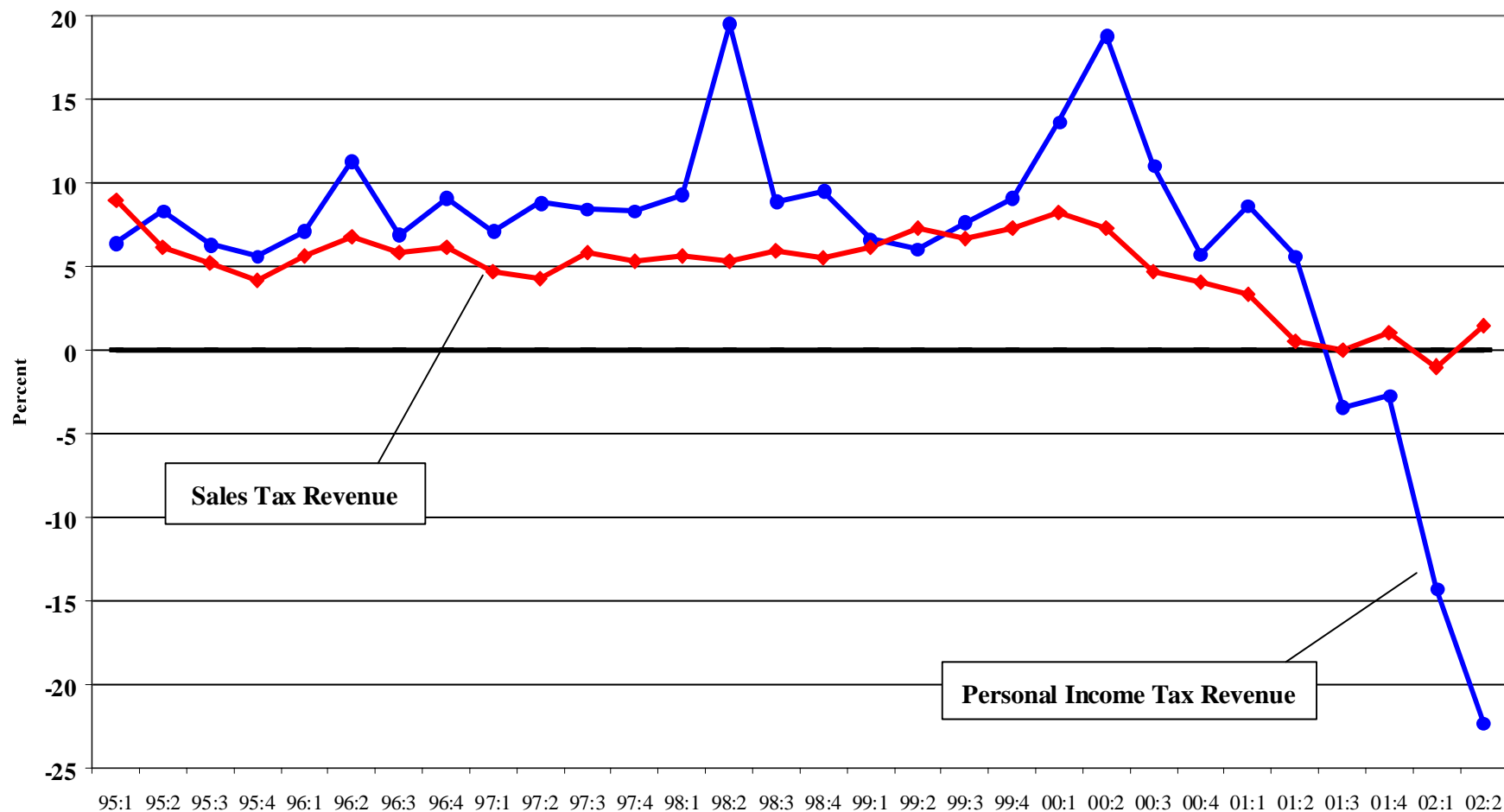
## S&P 500 Index, 1990 - 2002



Source: Economy.com

Z:\Basic\_Statistics.xls S&P\_Chart

# Year over Year Change in Quarterly State Personal Income and Sales Tax Revenues, 1995:1-2002:2



Source: Fiscal Studies Program, Rockefeller Institute of Government

# 2<sup>nd</sup> Quarter Tax Collections by Region

% Change in State Tax Revenue

2002:2 vs 2001:2

	<b>Personal Income Tax</b>	<b>Corporate Income Tax</b>	<b>Sales Tax</b>	<b>Total Taxes</b>
<b>Plains</b>	(13.2)	(13.3)	(1.5)	8.3
<b>Southeast</b>	(11.3)	(12.9)	5.3	(3.3)
<b>Great Lakes</b>	(8.7)	(11.8)	(0.2)	(5.2)
<b>Southwest</b>	(10.2)	(18.4)	(2.2)	(6.6)
<b><i>United States</i></b>	<b><i>(22.3)</i></b>	<b><i>(11.7)</i></b>	<b><i>1.5</i></b>	<b><i>(10.4)</i></b>
<b>Rocky Mountain</b>	(17.6)	(33.6)	(0.3)	(10.9)
<b>Mid Atlantic</b>	(22.3)	(19.5)	0.6	(13.8)
<b>New England</b>	(28.0)	(13.0)	1.2	(16.5)
<b>Far West</b>	(37.8)	0.3	2.7	(21.2)

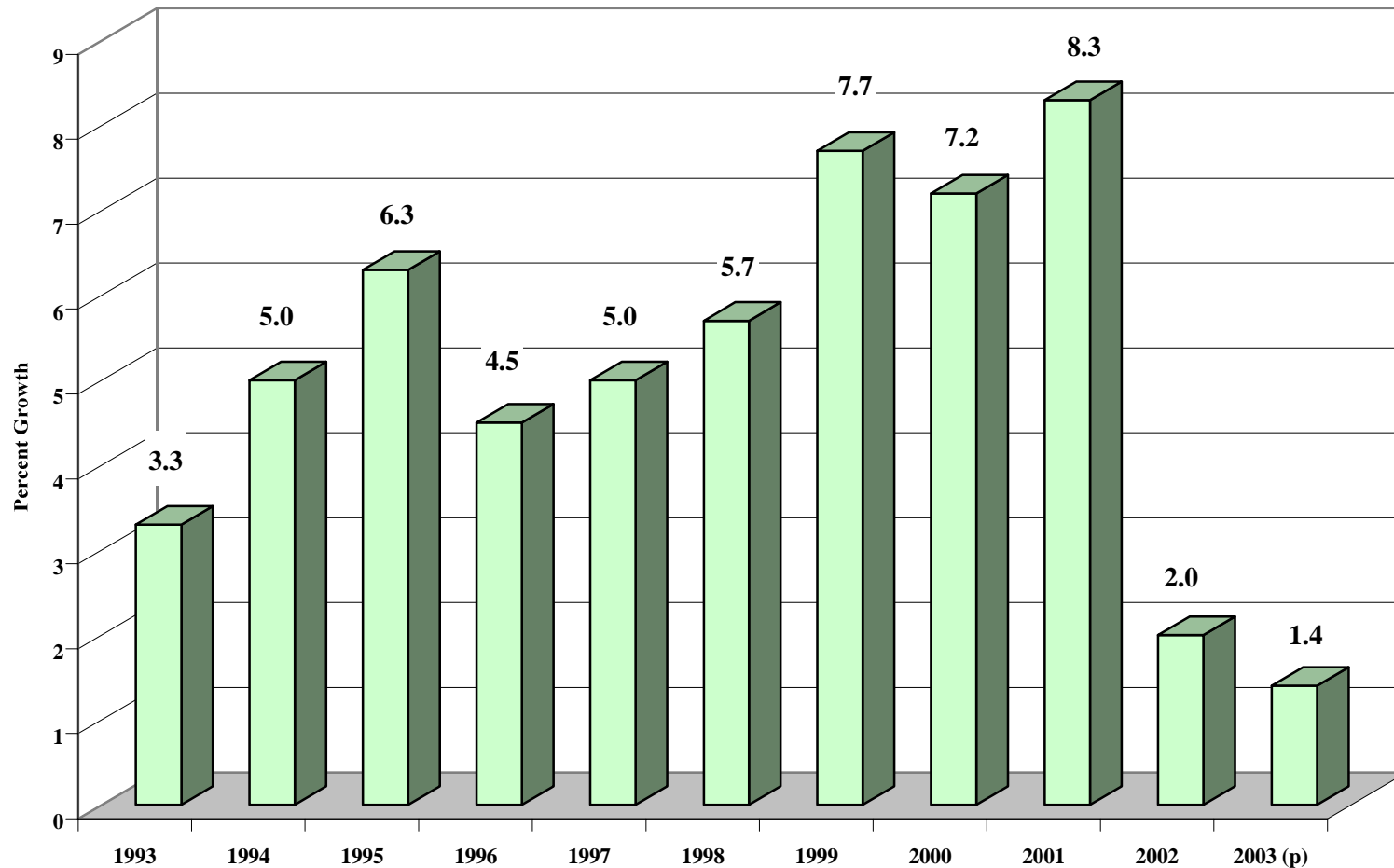
Source: Rockefeller Institute of Government

## **The National Revenue Summary: Bleak**

- Personal Income taxes were down 14.3% in the 1<sup>st</sup> Qtr and 23.0% in the 2<sup>nd</sup>
- Corporate income taxes for all states fell 18.4% and 12.5% in the first 2 Qtrs of this year
- Sales taxes were flat, falling 1% in the 1<sup>st</sup> Qtr and gaining 1.2% in the 2<sup>nd</sup>
- The 50 state drop in quarterly tax revenue for the 2<sup>nd</sup> Qtr was 10.9%
- The year over year change in state total tax collections has been falling since the beginning of CY 2000

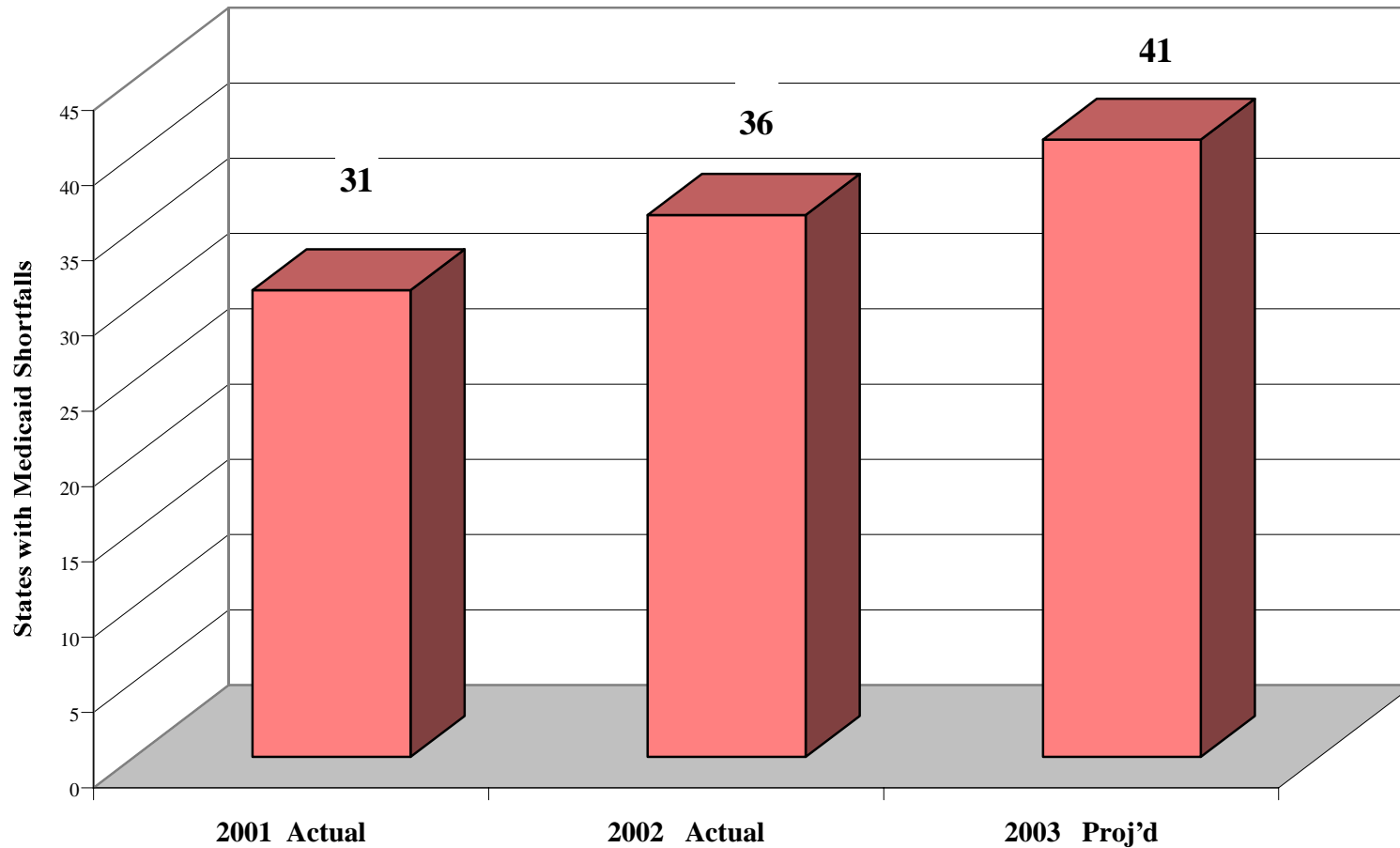
# **Spending Challenges: The Usual Suspects**

# 50 State General Fund Expenditure Growth 1993 – 2003 [Projected]



Source: NASBO

# States are not Able to Keep up with Medicaid Costs



# How Do States Cope In Tough Fiscal Times?

- Avoid actions that make problem worse (e.g., uncouple from federal tax cuts)
- Reserves and off-budget funds, debt refinancing, one-time actions
- Defer spending, accelerate revenue
- Hiring freezes
- Taxes on out-of-favor industries or activities (e.g., cigarettes; “loopholes”)
- Across-the-board and moderate spending cuts
- Freeze planned state tax cuts, spending programs
- Significant tax increases and spending cuts, layoffs

Source: Rockefeller Institute of Government

# Fund Balances Used Early, Tax Increases Continue During The Recovery

## State Actions In Two Recent Recessions

Action as % of Expenditures

State Fiscal Year	Fund Balance Change	Revenue Enactments	Real Year- Over-Year Spending Change
<b><i>1980-82 Recession</i></b>			
1981	(4.6)	0.3	6.1
1982	(1.5)	2.4	(1.1)
1983	(1.4)	2.3	(6.3)
1984	2.3	6.0	3.3
1985	1.4	0.5	4.6
<b><i>1990-91 Recession</i></b>			
1990	(1.4)	1.8	2.1
1991	(2.3)	3.7	0.7
1992	0.7	5.1	1.9
1993	2.4	1.0	0.6
1994	0.9	0.9	2.3

Source: National Association of State Budget Officers,  
Fiscal Survey of the States

## The 50 State Summary

- State revenue structures are not able to support the ongoing levels of spending
- State find themselves chasing a moving target as revenue declines accelerate
- Severe [current year] budget cuts are likely as year progresses
- Traumatic budget problems in FY 2004 and perhaps beyond

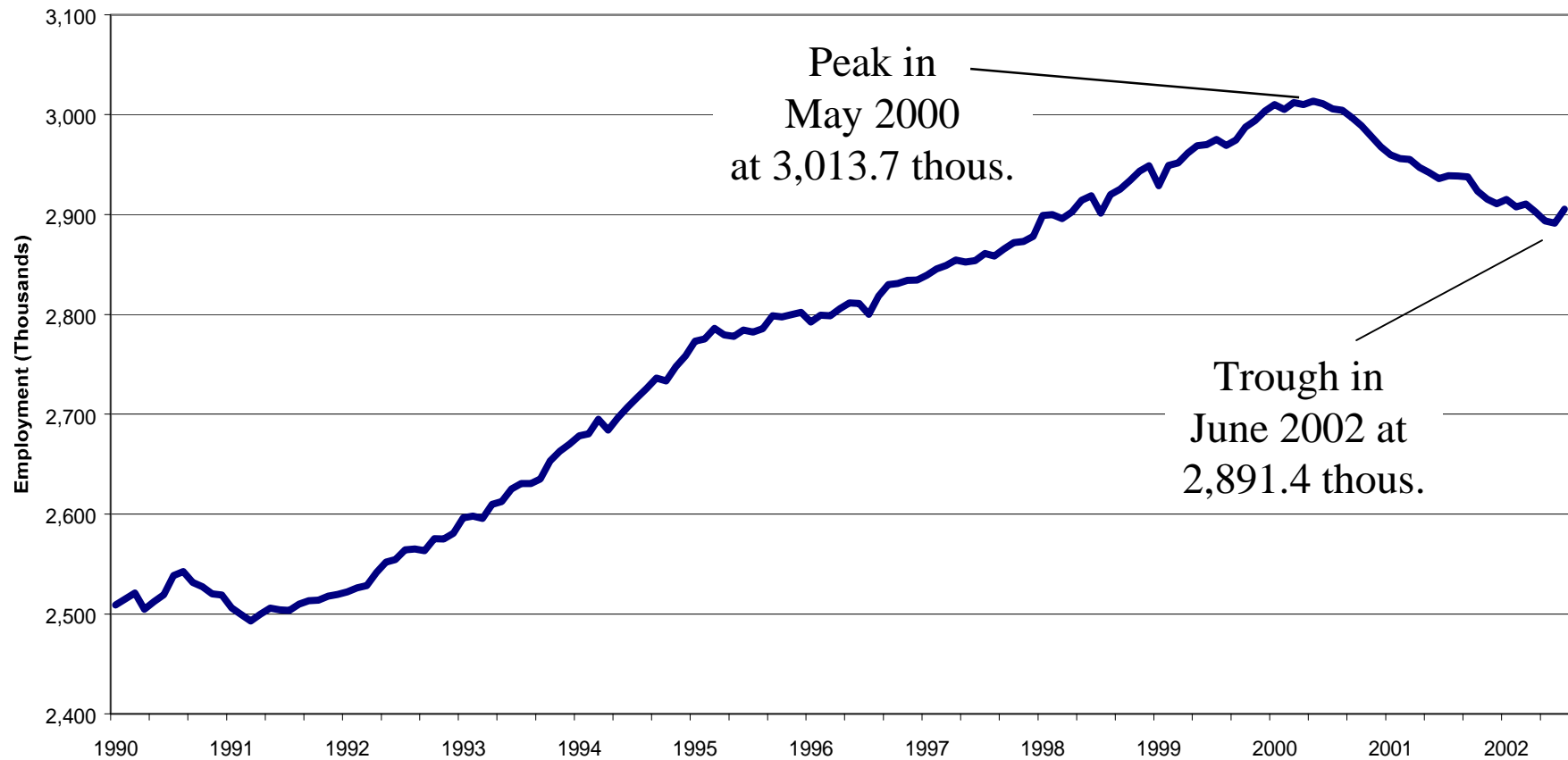
**The Indiana Picture:  
Better or Worse than the Average  
State?**

## How Does Indiana Compare: The Specifics

- A manufacturing recession impacts manufacturing states the most
- Indiana is hardest hit of 50 states in overall employment losses
- State's tax structure depresses personal income tax impact
- Indiana and North Carolina were among the first to feel the pain

# Indiana Non-Farm Employment, 1990-2002

Seasonally Adjusted



Source: Bureau of Labor Statistics

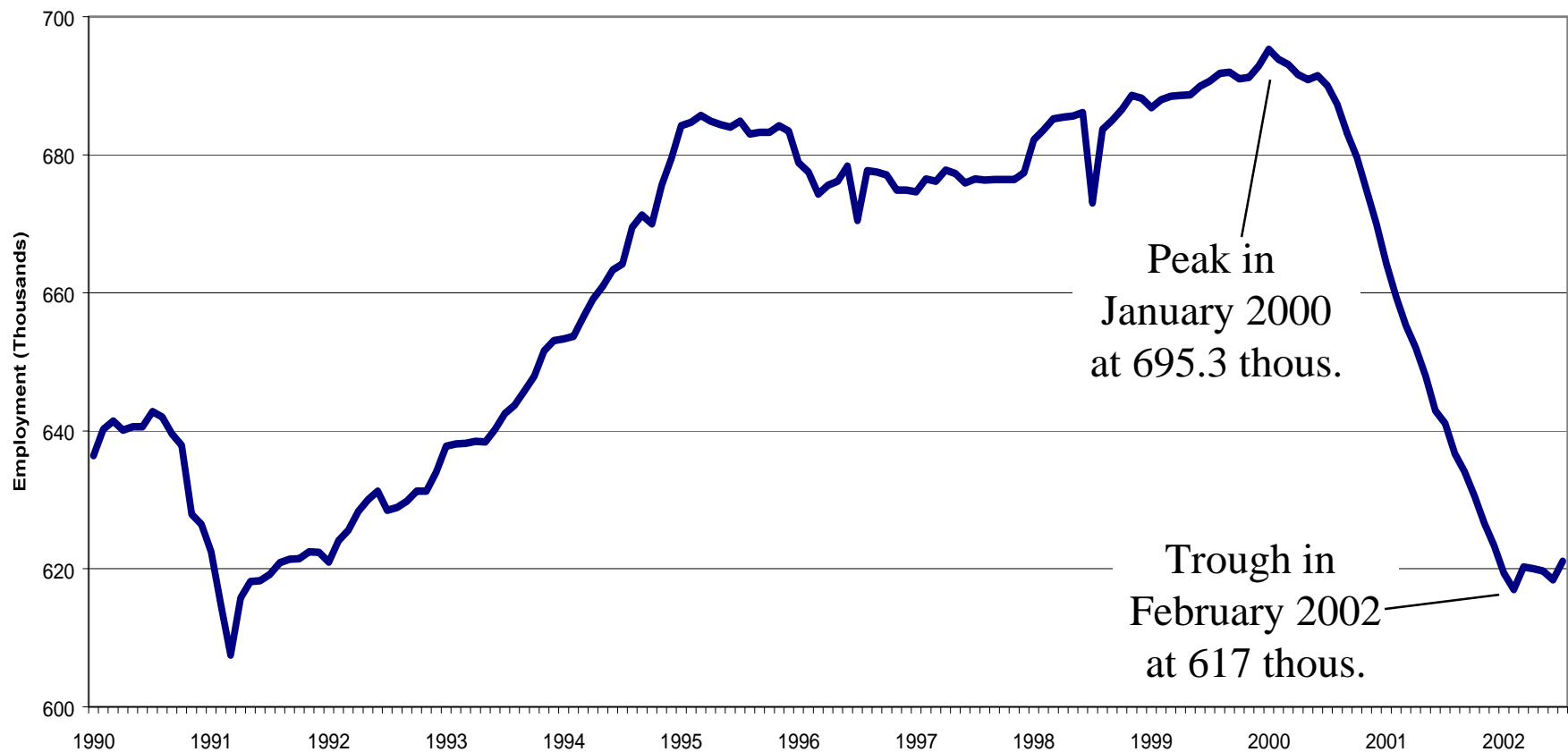
# State Seasonally Adjusted Non-Farm Employment Comparison, Jan 2000 – June 2002

State	# Job		% Job	
	Gain/Loss	Rank	Gain/Loss	Rank
Illinois	-73.3	48	-1.22%	43
Indiana	-118.8	51	-3.95%	51
Kentucky	2.2	31	0.12%	31
Michigan	-99.3	49	-2.14%	48
Minnesota	9.4	23	0.36%	29
Nevada	62.1	4	6.16%	1
North Carolina	-34.7	44	-0.89%	41
Ohio	-111.6	50	-1.99%	47
Wisconsin	20.7	13	0.74%	25

Source: BLS, IFPI calculations

# Indiana Manufacturing Employment, 1990-2002

Seasonally Adjusted



Source: Bureau of Labor Statistics

# State Seasonally Adjusted Manufacturing Employment Comparison, Jan. 2000 – Feb. 2002

State	# Job		% Job	
	Gain/Loss	Rank	Gain/Loss	Rank
Illinois	-61.3	43	-6.47%	20
Indiana	-78.3	48	-11.26%	48
Kentucky	-24.5	29	-7.55%	30
Michigan	-71.5	46	-7.28%	25
Minnesota	-28.8	32	-6.55%	21
Nevada	2.3	1	5.29%	2
North Carolina	-84.7	49	-10.74%	45
Ohio	-85.0	50	-7.79%	33
South Dakota	-7.2	17	-14.31%	51
Tennessee	-42.7	39	-8.35%	39
Texas	-64.5	44	-5.96%	17
Wisconsin	-47.8	41	-7.75%	32

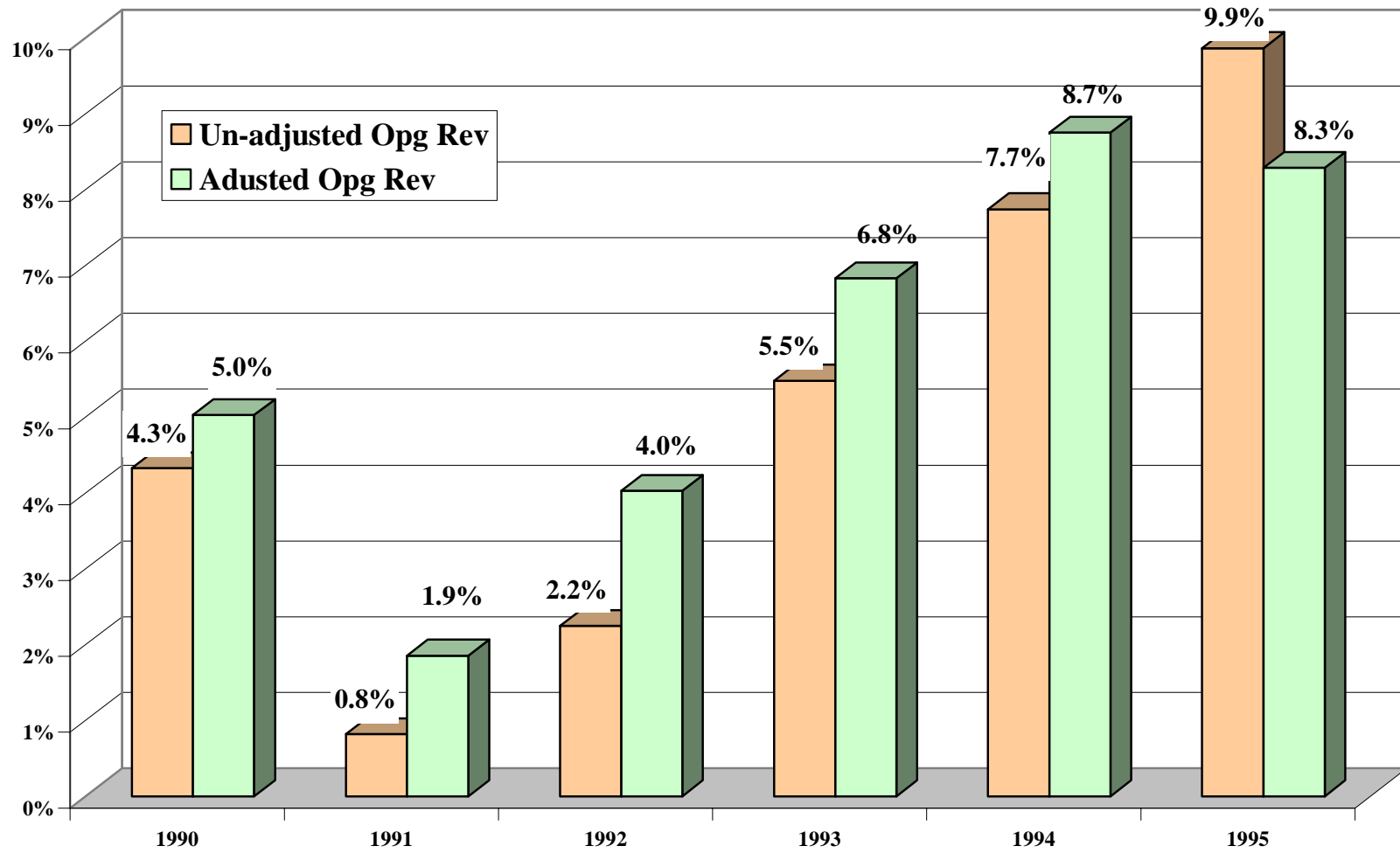
Source: BLS, IFPI calculations

# Whither the Recovery?

# States must manage through the beginning of the Recovery

- Budget Shortfalls lagged the beginning of the recovery in 1990
- Employment upturns lag GDP rebound
- Loss Carry forwards extend Corporate tax revenue declines
- Personal income and corporate income reporting lags income receipts
- Low income population stress lags the beginning of the recovery

# Indiana Revenue Recovery from the 1990-91 Recession



## **If we don't know the Solution -- What are the Questions?**

- Will this recession double-dip?
- When will the recovery begin?
- How strong will the recovery be?
- Will the manufacturing sector participate fully in the recovery?
- Will the equity markets rebound enough to assist in PIT growth?
- Will the federal government increase or relieve pressure on the states?